

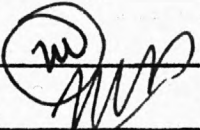
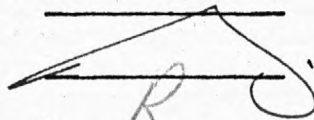
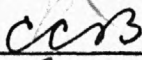

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks held on April 15, 1958.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x 	_____
Gov. Szymczak	x _____	_____
Gov. Vardaman ^{1/}	_____	x _____
Gov. Mills		x _____
Gov. Robertson	x _____	_____
Gov. Balderston	x 	_____
Gov. Shepardson	x 	_____

^{1/} In accordance with Governor Shepardson's memorandum of March 8, 1957, these minutes are not being sent to Governor Vardaman for initial.

Minutes of a meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks held at the Board's offices in Washington on Tuesday, April 15, 1958, at 12:30 p.m.

PRESENT: Mr. Martin, Chairman
 Mr. Balderston, Vice Chairman 1/
 Mr. Szymczak
 Mr. Robertson
 Mr. Shepardson

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 Mr. Young, Director, Division of Research and Statistics
 Mr. Marget, Director, Division of International Finance
 Mr. Hackley, General Counsel
 Mr. Farrell, Assistant Director, Division of Bank Operations
 Mr. Koch, Associate Adviser, Division of Research and Statistics
 Mr. Solomon, Assistant General Counsel
 Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics

Messrs. Erickson, Hayes, Bopp, Fulton, Leach, Allen, Johns, Deming, Leedy, Irons, and Mangels, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, respectively

Messrs. Rouse, Hostetler, Daane, Mitchell, Strothman, and Tow, Vice Presidents of the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, Minneapolis, and Kansas City, respectively

1/ Withdrew from meeting at point indicated in minutes.

4/15/58

-2-

Mr. Coombs, Assistant Vice President, Federal Reserve Bank of New York
Messrs. Willis and Anderson, Economic Advisers, Federal Reserve Banks of Boston and Philadelphia, respectively
Mr. Stone, Manager, Securities Department, Federal Reserve Bank of New York
Messrs. Meigs and Levin, Economists, Federal Reserve Banks of St. Louis and Dallas, respectively

Comments on Congressman Patman's testimony of February 7.

Under date of April 9, 1958, there had been sent to the Presidents of the Federal Reserve Banks copies of a tentative draft of the transmittal letter and comments which the Board contemplated sending to Chairman Spence of the House Banking and Currency Committee with regard to Congressman Patman's testimony of February 7 before the Committee. The letter to the Presidents stated that the Board would like to discuss this matter with them and that it would appreciate having at this meeting any comments they might have.

Governor Shepardson said it was the Board's present thinking that comments along the lines of the draft sent to the Presidents would constitute the report to the Banking and Currency Committee at this time and that the reports which had been received from the respective Reserve Banks would not be appended. The objective was to submit a report that would be sufficiently comprehensive to afford an appropriate answer to Mr. Patman's testimony and yet would be kept to a size that would enhance the prospect of its being read by the members of the Committee. What further information might have to be developed and

4/15/58

-3-

presented would depend on the reactions which followed receipt of the Board's comments.

There were some matters to which reference was not made in the proposed comments, Governor Shepardson said. For example, there was no reference to the criticisms in Mr. Patman's testimony relating to the operation of the System Open Market Account because this subject had been discussed on a number of occasions in testimony before Congressional committees. In general, the comments were aimed directly at Mr. Patman's specific criticisms in the area of Reserve Bank expenditures and Reserve Bank operations.

Governor Shepardson mentioned that certain changes had been suggested in the transmittal letter and the comments since the drafts of those documents were sent to the Presidents, and that a memorandum had been distributed this morning indicating the nature of those suggestions. While most of them were primarily of an editorial nature, one suggestion contemplated including at the appropriate place in the comments reference to the annual audits of the Board's accounts by public accounting firms and to the practice followed beginning in 1953 of engaging a public accounting firm to accompany the Board's examining staff on an examination of one Federal Reserve Bank each year to appraise the adequacy of the examining procedures and the manner in which they are carried out.

Chairman Martin then called upon the Presidents for comment, and Mr. Hayes stated that in general the New York Bank felt that the

4/15/58

-4-

proposed report was excellent. The Bank, he said, was sorry not to find in the draft any reference to the operation of the Open Market Account. Although he would respect the Board's judgment, Mr. Patman's statements about the Account were so clearly fallacious that he disliked to see them passed by without comment. Therefore, he raised the question whether some kind of general statement ought not to be included. In the New York Bank's report which had been sent to the Board, there were about 15 pages devoted to open market comments, and it might be that some of that material would be useful.

Aside from that, Mr. Hayes said, the New York Bank would prefer to have the proposed transmittal letter contain some reference to the concern felt about Mr. Patman's disclosure of the names of central banks to whom gold loans had been made. This was regarded as quite a serious thing, for it involved violating the confidential nature of correspondent relationships. Therefore, the Bank wondered whether it should not be pointed out to the Committee that this kind of problem should be borne in mind.

Mr. Hayes also referred to and read a paragraph from the New York Bank's report to the Board having to do with the character of Reserve Bank operations which he felt might help to strengthen the transmittal letter.

In discussing the comments of Mr. Hayes, Chairman Martin said that it was the thought of the Board to deal principally with the specific criticisms concerning expenditures and operations rather than

4/15/58

-5-

the blanket charges made by Mr. Patman. The criticisms by Mr. Patman concerning the Open Market Account were of the latter nature and were similar to criticisms which he had made repeatedly. If an investigation of the Account was desired, that should come from the whole Committee, but these were criticisms made by one member of the Congress.

Chairman Martin went on to say that somewhat the same line of reasoning would apply to the suggested additional paragraph in the transmittal letter. To spell out the virtues of the System would invite further discussion of possible defects, and the System would not want to make itself out as being perfect in all of its operations.

With regard to Mr. Hayes' comments about the disclosure of information ^{to Patman} on gold loans, Governor Robertson said he was apprehensive that any statement made in the Board's transmittal letter would merely add to the publicity. The next time examination reports were furnished to the Committee, the Board could be more explicit than it had been before about the confidential nature of this information. Such a letter would go to the Committee only, while the transmittal letter would have more widespread use.

After some of the Presidents had suggested certain changes in the proposed comments, it was agreed that the Presidents would submit any other suggestions to Governor Shepardson or appropriate members of the Board's staff.

Chairman Martin commented that the matter could be deferred until the date of the next meeting of the Open Market Committee if

4/15/58

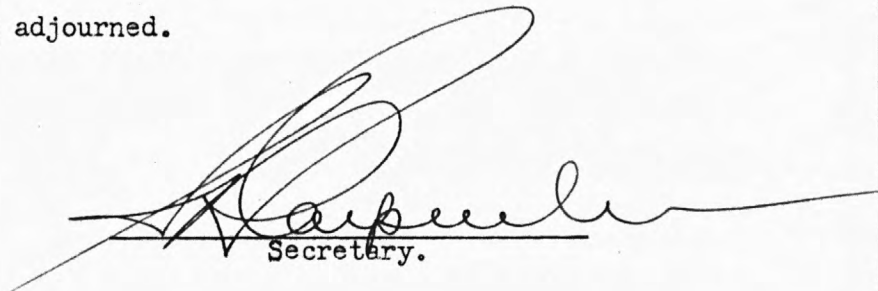
-6-

major variations from the current draft should develop but it was the consensus of the Presidents that that would not be necessary.

During the foregoing discussion Messrs. Balderston and Rouse withdrew from the meeting.

Small business finance. It had been suggested that this meeting include some comments on proposed small business legislation in the light of the findings of the Board's small business financing study. However, it was stated that Mr. Irons had invited Mr. Young to comment on these matters at the meeting of the Presidents' Conference to be held this afternoon. Chairman Erickson invited any members of the Board who so desired to join the meeting of the Conference for that discussion.

The meeting then adjourned.



Secretary.